

COMMONWEALTH OF VIRGINIA

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SENATOR MAMIE LOCKE, Vice-chair
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VIRGINIA HOUSING COMMISSION

SUMMARY

Virginia Housing Commission
April 14, 2015, 1:00 PM
House Room C, General Assembly Building

I. Call to Order

Delegate Daniel Marshall, Chair, called the meeting to order at 1:00 PM.

Members in attendance: Delegate Daniel W. Marshall, III, *Chair*; Senator Mamie E. Locke *Vice-chair*; Senator George L. Barker; Senator John C. Watkins; Delegate David L. Bulova; Delegate Rosalyn R. Dance; Delegate Barry D. Knight; Delegate Christopher K. Peace; Mark K. Flynn, *Governor Appointee*; T.K. Somanath, *Governor Appointee*; and Laura D. Lafayette, *Governor Appointee*.

Staff: Elizabeth Palen, *Executive Director of VHC*

II. Housing and Economic Forecast

- **Sonya Waddell, Regional Economist, The Federal Reserve Bank of Richmond:** The Virginia housing market has been growing slower than the overall U.S. market; existing home sales are above 1990's levels and new home sales are not. Housing starts have fallen at a rate similar to U.S. averages, however the U.S. is trending up while Virginia is not; and building permits have declined since 2014.
- **Mark Flynn, Governor Appointee:** How much of the building permit downturn was weather related?
 - **Waddell:** Both of these are seasonally adjusted, but that does not mean they are not weather related. We are certainly hearing that weather has played a negative role.
- **Waddell:** Construction employment was severely depleted in the recession and has not rebounded. It is increasing slowly, but is nowhere near pre-recession numbers. The House Price Index shows a continued increase in house prices. There is stronger house price growth in Richmond and Winchester, but there is slow growth in most MSAs.
 - Recently distressed prices are falling more rapidly, such that now total price growth is in line with distressed sales. The foreclosure inventory rate is still in decline. There is a high level of inventory of foreclosures. In the fourth quarter of 2014, 0.9% of mortgages in Virginia were in foreclosure, which correlates to 12,000 loans in the foreclosure process.

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DELEGATE DAVID L. BULOVA
DELEGATE ROSALYN R. DANCE
DELEGATE BARRY D. KNIGHT
DELEGATE CHRISTOPHER K. PEACE

SENATOR MAMIE E. LOCKE
SENATOR JOHN C. WATKINS
SENATOR GEORGE L. BARKER

MARK K. FLYNN
LAURA D. LAFAYETTE
T.K. SOMANATH

- Virginia's foreclosure inventory rate is still lower than the national average, as is the foreclosure starts rate.
- **Senator Watkins:** Doesn't Maryland have more loans in foreclosure because their system is judicial, not regulatory?
 - **Waddell:** Maryland is not technically a judicial state, but, yes, this is because of the way their system is set up.
- **Watkins:** But you have to go to court to put a loan in Maryland under foreclosure. What percentage of our foreclosures is under USDA?
 - **Waddell:** I don't know. Maryland does not technically require loans to go through the judicial process but in practice they often do.
- **Delegate Marshall:** Do you know the number of states that are judicial versus regulatory?
 - **Waddell:** No, but I can get that information.
- **Laura Lafayette, Governor Appointee:** Are we almost back to pre-recession foreclosure starts?
 - **Waddell:** Yes and no. We are returning to pre-recession levels, but we are not quite there yet.
- **Waddell:** Regarding the distribution of types of loans, the share of FHA and VA loans are becoming larger, like in the pre-recession market. We are not yet at the new normal. In the fourth quarter of 2012, 1.8% of mortgage inventory was 90 days delinquent. Cure rates for 90-day delinquency are high.
 - In February, we gained over 11,000 jobs. While employment is increasing, Virginia is lagging behind the national average in employment growth. One drag on the Virginia economy is the reliance on the government contracting sector.
- **Watkins:** It looks like Virginia took a downturn in employment in 2013. Is that due to sequestration?
 - **Waddell:** I believe it was 2012, and yes. There is some not fully concrete work on the sequestration; the decision is that it definitely had an effect but generally the effect is not felt for a few years.
- **Waddell:** The Virginia unemployment rate has gone down and is steadily below the national average. While a number of foreclosures were generally seen in the Northern Virginia area, they still have low rates of unemployment.
 - The Virginia housing market is still improving, but slowly. House prices are rising, though the increase is tapering off. The inventory of distressed property is declining. New home sales and construction are not coming back in Virginia. Virginia labor markets are struggling, particularly in the important professional and business services sector. This is at least in part due to the role of the federal government in Virginia's economy. The labor market affects the Virginia housing market.
- **Watkins:** How do you classify multi-family?

- **Waddell:** There are some indicators we look at that could be single- or multi-family.
- **T.K. Somanath, Governor Appointee:** Moving forward we need to pay attention to demographics. There will be more millennials not attached to single-family housing. I'd like to see the report capture multi-family residences as the population increases. I believe that the trend in urban sectors is towards multi-family.
 - **Waddell:** Regarding permit activity for five or more units, I don't know about change in that activity. But there certainly has been a trend towards multi-family.
- **Somanath:** Non-residential may not be the right category for multi-family. It may be more useful to use the residential category.
 - **Waddell:** We usually look separately at non-residential areas and the residential areas. I'll see what we can pull together.
- **Flynn:** I would like to look into urban areas that lack transit opportunities and are not seeing the same growth as those areas with transportation.
- **Lafayette:** The housing market is a bit uneven. In the metropolitan area, we are up 18% in pending sales and 18% in sales. Sale price is up 3.5%. We have had a strong first quarter. The condo market is soft. There has been upward pressure on rental prices.
- **Mike Toalson, Homebuilders Association of Virginia:** Our business was booming through 2007 and 2008. It peaked at 55,000 and fell to between 9,000 and 11,000 in 2009 and stayed there through 2012; 2013 was a better year than 2014; 2015 continues to be spotty, but we've seen some improvement. We hope for the continuation of buying season, and that we continue moving towards previous levels.
 - Starts are now 45% of average market, which are at 2002 levels. The nation is at about 53% of average market. We are optimistic for the remainder of this year.
- **Marshall:** Has any one segment of the single-family homebuyer done better?
 - **Toalson:** In our experience the high end has done much better. The middle market is dependent on the move up. We are seeing some movement in the first-time homebuyer range, but it is about half what we would expect to see in a normal market.
- **Brian Gordon, Virginia Apartment and Management Association:** We are starting to see multi-family activity reach its apex at this point. We are seeing rents start to drop and vacancies occur. The local economy is slowing and the sequestration is impacting us. The supply of multi-family units is starting to outpace their demand. The Northern Virginia market is seeing this and we expect to start seeing it across the state.
- **Somanath:** Does your association include localities with an affordable housing requirement?
 - **Gordon:** Yes. A number of our members provide affordable housing. There are also jurisdictions where affordable housing is created through the proffer agreement process.
- **Somanath:** Have any of the localities adopted ordinances to require affordable housing?

- **Gordon:** Yes.

III. Land Banks

1. Local Perspective

- **J. Lee Volger, *City Council Member, Danville*:** First, let me thank you all for allowing me to speak today and especially the Chair and our Delegate Danny Marshall. Folks from my part of the Commonwealth are very familiar with him and feel fortunate to have him represent us in the House of Delegates.
 - I just wanted to take a few minutes to outline the blight situation that my city, Danville, is facing and how we've dealt with it, how we're continuing to deal with it and what we hope to do in the future, and how you all may be able to help in that regard.
 - Danville was once a bustling city known for its textile mills and robust tobacco markets. But globalization, demographic changes, and, ultimately, a national recession caused our city to substantially shrink in population between 1990 and 2010. Now in the past five years, we've stabilized that population decline and even seen some encouraging signs of future growth. As mentioned earlier in this meeting, millennials and empty nesters are flocking to more urban environments with walkability factors. We've seen this in Danville with our downtown River District. In the past few years, the population in that district has gone from 200 people to over 2,000 and growing. With that being said, we are still faced with a critical problem: blight.
 - We have far more homes than we do people ready to move into them. In addition to this, we have a rapidly aging housing stock. Over 50% of the homes in Danville are 50 years old or older. Many of these are old mill houses that are not suited for modern use. Some homes, however, are still desirable to those who are willing to put the time and effort into bringing them back to life. Often times, though, they are discouraged by the amount of red tape, tax liens, and other hurdles that stand between them and restoration.
 - In the past few years, Danville has taken an aggressive approach to combatting this blight issue plaguing our city. More than \$5 million has been spent on Danville's blight eradication program since 2012. Of the 2,000 blighted structures in our city, we are only able to demolish roughly 100 per year. Clearly, we cannot demolish our way out of this problem. That is why we've embarked on a number of other solutions, among them being a full-time attorney that was hired to move demolition and maintenance code cases through the multiple steps they must take to be approved by a court. A rental inspection program was set up—and has already been expanded once—to force landlords to bring deteriorating buildings up to code. A program also was set up to help landlords get low-interest loans to make the repairs.
 - More recently, a receivership program was set up, allowing the Danville Redevelopment and Housing Authority to purchase derelict houses to either demolish or repair, as well as any adjacent vacant lots. These were the first steps towards a Land Banking program, and the reason why I am so pleased to see this issue being discussed today. A Land Bank Authority in Danville can help achieve a range of

smart growth goals—such as facilitating infill development, spurring economic investment, and preserving open space.

- Where the state can come in and help us in this regard is by creating a framework that gives localities the flexibility to craft a solution that is best suited for them. Because what works for parts of Hampton Roads may not be applicable in Northern Virginia, and what is best for Northern Virginia may not be feasible in Danville. But by creating legislation for Land Banks and Land Trusts in Virginia, you would be giving localities the tools they need to combat blight and ultimately turn some of these properties back over to the private sector for beneficial use.
- One of the things I've envisioned for the city I represent is the creation of an online auction system that allows for some of these blighted properties to be up for sale to the public to the highest bidder, predicated upon conditions being met, such as having the property up to code within a certain amount of time and actively seeking a tenant, as a way to prevent these properties from being bought and held, which is what led many of them to this condition in the first place. Programs such as this would help the taxpayers save money, while helping to eliminate blight at the same time.
- In closing, I'd ask that you seriously consider joining the 13 other states that have passed some form of Land Banking legislation that allows the flexibility to overcome many of the financial and legal barriers that might discourage responsible, private investment in neglected properties, such as clouded titles, years of back taxes, and costly repairs. It would be a great benefit to the City of Danville and, I imagine, many localities across our Commonwealth.
- **Delegate Barry Knight:** Do you know of a state that has a land bank piece of legislation that could be applicable to Virginia?
 - **Volger:** Some of the programs in Michigan would be applicable to Danville. New York looks applicable, too.
- **Daniel Cohen, Senior Project Manager, Department of Economic and Community Development, City of Richmond:** Fifteen percent of Richmond's housing stock is tax delinquent and of that, 67% is vacant. More than 25% can be sold directly by the city, and 11% can be sold to nonprofit community development corporations.
 - There are 2,600 existing homeowners earning less than 30% AMI (\$21,900 per year for a family of four) paying greater than 50% of their income on housing. Richmond is comprised of 55% renters and 45% owners, with an increase of 5% during the last five years; median income for owners is \$62,414, and HUD's median income for a family-of-four-HUD is \$72,900.
- **Toalson:** The five percent increase relates to what?
 - **Cohen:** It's an increase in the ratio that used to be 50:50.
- **Cohen:** The median home sales price in late 2014 was \$215,000. Average home sales price in 2014 was \$252,000. Seventeen percent of single-family dwellings are renter occupied, and 31% of housing stock is more than 70 years old. The cost of rehabilitation for an old building is very high.

- The cost to acquire and rehabilitate existing homes ranges from \$200,000 to \$280,000. New infill construction ranges from \$180,000 to \$235,000, while market prices range from \$130,000 to \$180,000. The result is current subsidies for affordable homeownership run between \$50,000 and \$100,000.
- **Marshall:** In 2014, how much infill construction and how many houses were sold?
 - **Cohen:** I don't know but I can get back to you on that information.
- **Cohen:** In order to qualify for appointment of a special commissioner under § 58.1-3970.1 of the Code of Virginia, the percentage of taxes and liens or percentage of taxes alone must exceed 20 percent and 10 percent, respectively, or the assessed value of the parcel or parcels must be \$100,000 or less. Property is not an occupied dwelling. The locality enters into an agreement for sale of the parcel to a nonprofit organization to renovate or construct a single-family dwelling on a parcel for sale to a person or persons to reside in the dwelling whose income is below the area median income.
 - The mayor's Anti-Poverty Commission is engaging in talks with Richmond Metropolitan Habitat for Humanity regarding the expansion of the Community Land Trust. They are also developing a mechanism (LLC) to transfer vacant city-owned houses to interested CDCs. Partnership for Housing Affordability is also developing a community land trust to support long-term affordable housing.
 - Community land trusts are designed to ensure long-term housing affordability. The trust acquires land and maintains ownership of it permanently. Prospective homeowners enter into a long-term, renewable lease instead of a traditional sale.
 - When the homeowner sells, the family earns only a portion of the increased property value. The remainder is kept by the trust, preserving affordability for the future. This provides low- and moderate-income people with the opportunity to build equity through homeownership, and ensures residents are not displaced due to speculation and gentrification.
 - Foreclosure rates for land trusts have been as much as 90% less than conventional home mortgages. Typically at least one-third of a land trust's board is composed of community residents, allowing for local control of local assets. Many land trusts are involved in a range of initiatives including commercial development projects and community greening efforts.
- **Marshall:** What is the city's plan for how many houses to rehabilitate versus houses that are leveled and made new?
 - **Cohen:** The goal is to take 200 units a year through the tax process. Demolitions may be problematic in historic areas so that number can vary.
- **Marshall:** What do you do in historic areas to houses that are beyond fixing?
 - **Cohen:** Nothing happens in those units. That's a hard issue for a city that prides itself on history.
- **Cohen:** I think it's important to cluster units by market and by title. You will get a higher value on those properties.

- **Knight:** How soon can a property be transferred from tax delinquent into this system?
 - **Cohen:** If the property is assessed at \$100,000 or more, it is two years from the date the taxes were originally due. Technically, the property can be used right away, but in practice the issue is not addressed as quickly.
- **Watkins:** The property values in this legislation probably need to be indexed.
- **Somanath:** There is a need to find sources of funding to address the concentration of poverty. Tax abatement would provide an incentive for someone to invest in these places.

2. National Perspective

- **Kim Graziani, Vice President and Director, National Technical Assistance for the Center for Community Progress:** A land bank is a public authority or a nonprofit that focuses on the conversion of vacant, abandoned, tax-delinquent and foreclosed properties into productive use.
 - The difference between land banks and redevelopment authorities include that redevelopment authorities have a redevelopment mission, eminent domain powers, and strict disposition requirements.
 - The difference between land banks and community land trusts is that land banks have an affordability mission and a legal structure and do not hold onto ownership.
 - Common community triggers that lead to development of a land bank include: Weak economic conditions and properties with little market value, population loss and high rates of vacancy and abandonment, inequitable/inefficient tax foreclosure systems, restrictive public property disposition requirements, and sudden “shocks.”
 - The core power of a land bank is to acquire, maintain, and transfer these problem properties to responsible ownership, all according to priorities and land use goals of the jurisdictions. Land banks also need to work with preventative systems.
 - Creation of a land bank would require state enabling legislation.
 - Common funding sources include land sales revenue, Federal (HOME, CDBG), State and Local (National Mortgage Settlement, HHF), Tax Recapture (5/50), Foundation/Philanthropy, and Tax Foreclosure Fees (DTAC), in-kind services, and Developer Fees.
- **Marshall:** Do these tax foreclosure fees come from a state or local level? In Virginia, property tax is a local tax.
 - **Graziani:** It’s a county tax.
- **Graziani:** Findings in a 2013 Michigan Land Institute Study suggest that land bank activities have a significant positive impact on the regional economy. A 2013 Cleveland study showed that REO properties acquired by a public entity (land bank, nonprofit, CDC, etc.) were three times more likely to have a beneficial outcome.

3. Land Trusts/Land Banks

- **Robert Adams, Executive Director, Housing Virginia:** I am working with the only operating land trust in Virginia: Thomas Jefferson Community Land Trust. A

community land trust is a nonprofit corporation that is a developer and a steward of permanently affordable housing on behalf of a community. The community land trust owns the land and leases the land to the homebuyer who owns the improvements.

- One of the issues is financing.
- **Marshall:** What do the lots cost in Charlottesville?
 - **Adams:** Land can cost \$40-60 000. The improvements cost \$140,000 for the house. Without the last trust, the house could cost from \$180,000.
- **Adams:** The tradeoff for the affordability is a share of the appreciation of the house value. In Charlottesville, the homebuyer is only allowed to retain 25% of the appreciated value.
- **Marshall:** The homeowner pays property tax on the improvement, but what about the lot?
 - **Adams:** The homeowner is responsible for all of the property tax, including that of the lot. In some areas, tax abatement has been provided for the land.
- **Delegate Bulova:** So the lot is not tax exempt?
 - **Adams:** It depends on the jurisdiction, but that is not the case in Charlottesville.
- **Bulova:** If they pay in all cash are they able to pull any of that out like a reverse mortgage? What happens if the homeowner wants to make improvements to the home?
 - **Adams:** The community land trust in Charlottesville has to approve any significant improvements made to the home. In theory, the homeowner would get access to some equity created from that.
- **Bulova:** Would that note holder have priority over the trust because it's related to the structure itself?
 - **Adams:** The issue of financing is the biggest challenge. The Thomas Jefferson Land Trust agreed to subordinate the leasehold interest so that in the event of a foreclosure the lending institution would get the property back.
- **Adams:** Income has not been rising as fast as housing prices, causing the affordability problem. Traditionally a subsidy is based on the buyer, a family buys a house and gets some additional assistance. When the homebuyer sells the house, the subsidy is then returned to the nonprofit for further use for a new homebuyer. Even though you are recycling that money, subsidy needs grow over time.
 - The land trust controls the purchase price of that house in perpetuity. The front-end subsidy is significant. With a community land trust house, it gets more and more affordable as it's sold and resold in the future.
- **Bulova:** What if the business model fails or priorities change and the community no longer wants to focus on a particular area, how do you legally unwind it? Is that difficult?
 - **Adams:** No, I don't think that would be difficult. A community land trust is a 501(c)(3) organization and plays by those rules.

IV. Public Comment

- **Delegate Marshall** asked for any public comment.

V. Adjourn

- Upon hearing no request to comment, **Delegate Marshall** adjourned the meeting at 3:00 PM.